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SUBJECT: REPORT ON ECUADOR'S ENERGY SHORTAGE

REF: QUITO 1110; QUITO 1080

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¶1. (SBU) SUMMARY: Due to a drought, the Paute hydroelectric power plant, which normally provides 30 to 40% of Ecuador's power, is only meeting about 9% of Ecuador's power demands, causing the country to experience a nationwide power shortage (ref A). The two US-owned power generators in the country, Machala Power (owned by Noble Energy) and Electroquil (owned by Duke Energy) are running flat out, - however, political and logistical problems are hampering their efforts. END SUMMARY

Praying for Rain in Paute

¶2. (U) During the rainy season, the Paute hydroelectric plant is capable of producing up to 40% of the 42,000MWh/day demanded by the Ecuadorian power grid. However, due to an extended drought, it is currently only producing approximately 3,600MWh/day, or 9% of demand. Moreover, the water level at the dam is 1.5 meters below the acceptable level to continue operations. Operators fear that if it does not rain soon the plant will have to close completely. Although Ecuador's other power plants are trying to make up for the shortfall, a number of plants are closed for maintenance. The result is a 7,000MWh/day shortfall.

Machala Power and Politics

¶3. (C) EconOff spoke with the Scott Graham, the manager of Machala Power's natural gas plant, owned by Texas based Noble Energy, to get his opinion of the current crisis. Graham affirms that Machala Power has been running at full capacity since October 6. Their current capacity is 130MW, thus enabling them to produce 3,120MWh/day assuming no downtime for maintenance. Machala's original concession with the government obligated them to build more capacity in three phases: the already complete phase 1 of 130MW; phase 2 at 60MW; and phase 3 at 90MW. However, Machala Power has had chronic problems getting paid by the GoE and has therefore not initiated phases 2 and 3, and currently has no plans to expand (ref B). The GoE sees this as a violation of the terms of the concession while Machala believes it is not obligated to continue to invest in the country while it is not getting paid. Graham has little faith that Machala will be in Ecuador much longer and expects the company to be nationalized eventually. Given the rocky relationships Machala Power and its sister subsidiary EDC have had with the GOE, it is highly unlikely that Machala will install any more energy generating capacity in the country. In a November 14 conversation with Econoff, an EDC official said the company expects the GoE to initiate imminently a "caducity" process against it to cancel the Noble subsidiary's gas concession, which it uses to supply the Machala Power plant.

Duke Energy to the Rescue

¶4. (C) In contrast to Machala Power, Duke Energy-owned Electroquil has a very good relationship with the Correa regime. Although the company has had payment problems in the past, they recently renegotiated their Power Purchase Agreement (PPA) on very favorable

terms. Duke runs four generators located outside of Guayaquil, with a total capacity of 168MW. However, the company is currently only running three generators due to a lack of diesel fuel. According to Electroquil President, Gustavo Larrea, the problem lies with the GoE's inability to deliver diesel to the plant. The oil is imported through the port in Esmeraldas, located 180km from Guayaquil. According to Larrea, the government simply does not have the infrastructure to unload diesel from tanker ships fast enough. Local newspapers report tanker trucks waiting at the port all day without being filled.

¶5. (C) Larrea also noted that the GoE has asked Duke Energy to increase capacity. The proposed plan is to move three 20MW diesel generators from Peru to Santa Elena province. Although the decision has to be made in Duke's boardroom, Larrea is convinced it will be approved given Duke's pleasure with the recently renegotiated PPA. Once approved, the generators could be online in seven to eight months and contribute 60MW capacity to the Ecuadorian grid. Of course, it should be noted that these new generators would also be diesel powered, so the GOE will still have to find a way to import and unload more diesel.

Fernandez